

Message Text

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ACTION EB-08

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INFO AMCONSUL HONG KONG
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
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UNCLAS BANGKOK 7388

E.O. 11652: N/A
TAGS: ETRD, EFIN, TH
SUBJ: GENERALLY POSITIVE REACTION TO UNPEGGING OF THE BAHT

REF: BANGKOK 7228

1. ALTHOUGH THERE IS CONSIDERABLE CONFUSION AND SPECULATION AS TO WHAT IT PORTENDS FOR FUTURE BAHT EXCHANGE RATES, THE PRESS AND MOST KNOWLEDGEABLE SOURCES ARE EITHER SUPPORTIVE OR AT LEAST ACQUIESCENT TO THE RTG'S UNTYING OF THE BAHT FROM THE DOLLAR.

2. IN AN EFFORT TO COUNTER SOME OF THE SPECULATION AND REMORS, BANK OF THAILAND GOVERNOR DR. SANO HELD A PRESS CONFERENCE YESTERDAY. HE EMPHASIZED THE BAHT HAS NOT BEEN DEVALUED, REVALUED, OR FLOATED BUT WAS BEING TIED TO A BASKET OF CURRENCIES. HE CONTENDED THAT THE DOLLAR WAS A MAJOR COMPONENT IN THIS BASKET, WHICH ALSO INCLUDED THE DEUTSCHE MARK AND THE JAPANESE YEN. HE DID NOT REVEAL, HOWEVER, THE COMPLETE COMPOSITION OF THE BASKET. HE EMPHASIZED

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SIZED THE STABILITY OF THE BAHT WOULD BE MAINTAINED. SANO IS ALSO QUOTED AS SAYING NEW EXCHANGE RATE REGIME WOULD NOT IN ANY WAY AFFECT FOREIGN EXCHANGE TRANSACTIONS IN THE MARKET SINCE THE EXCHANGE EQUALIZATION FUND ACT IS STILL BEING ENFORCED.

3. REFERRING TO GOLD, DR. SANO DECLARED THAT UNDER THE CURRENCY ACT THE PRICE OF GOLD USED IN ESTABLISHING THE BAHT VALUE IS FIXED

ACCORDING TO AN INTERNATIONAL AGREEMENT CONCLUDED SIX YEARS AGO. IN ACTUAL PRACTICE, THE PRICE OF GOLD IN THE WORLD MARKET HAS MOVED FREELY AND VARIES SUBSTANTIALLY FROM THE OFFICIAL GOLD PRICE. THUS, TO CONTINUE PEGGING THE BAHT TO GOLD AT AN OFFICIAL PRICE WOULD NOT BE REALISTIC. MOREOVER, ACCORDING TO A DECISION TAKEN IN 1976 BY THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND, OF WHICH THAILAND IS A MEMBER, MEMBER COUNTRIES OF THE IMF ARE NO LONGER OBLIGED TO MAINTAIN A PAR VALUE IN TERMS OF GOLD. SUBSEQUENTLY, SEVERAL MEMBER COUNTRIES UNDERTOOK TO AMEND THEIR CURRENCY ACTS. AT PRESENT A TOTAL OF 77 COUNTRIES HAVE SEVERED THE LINK WITH GOLD. ALTHOUGH THE BAHT IS LEGALLY TIED TO GOLD AND NOT THE U.S. DOLLAR, IN ACTUAL FACT, SINCE THE GOLD PRICE IS FIXED IN TERMS OF THE U.S. DOLLAR, THE BAHT VALUE IS ALSO TIED TO THE U.S. DOLLAR. THUS, ABOLITION OF THE REQUIREMENT TO ESTABLISH THE GOLD VALUE OF THE BAHT MEANS THAT IN ACTUAL PRACTICE THE BAHT WILL BE UNPEGGED FROM THE U.S. DOLLAR.

4. LOCAL BANKS CONTINUE TO BUY U.S. DOLLARS AT \$1.00 - 20.30 BAHT AND SELLING AT 20.45 BAHT. THE INTERBANK RATE CONTINUES AT 20.375 SELLING AND 20.425 BUYING.

5. ALTHOUGH GOVERNMENT SOURCES CLAIM THE INCREASE IN LUXURY TARIFFS WILL NOT AFFECT LOW-INCOME THAIS, IT GENERALLY ACKNOWLEDGED THE MEASURES, ESPECIALLY THE INCREASED GASOLINE PRICE, WILL SPARK A GENERAL ROUND OF NEW PRICE INCREASES. SOME LOCAL DEALERS RAISED PRICES IMMEDIATELY ON THE AFFECTED GOODS IN THE WAKE OF THE AN-UNCLASSIFIED

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OUNCEMENT, ESPECIALLY THOSE DEALING WITH UNIT HIGH-COST GOODS. MANY, HOWEVER, SEEM CONTENT TO SELL OF THEIR PRESENT INVENTORIES AT PREVIOUS PRICES AND ARE ENJOYING "BRISK" SALES.

6. THE EARLY REPORT THAT THE IMPORT BAN ANNOUNCED IN JANUARY ON SOME 18 ITEMS HAD BEEN LIFTED WAS ERRONEOUS. THE BAN ON THESE ITEMS REMAINS IN EFFECT. THE RTG IS PERMITTING THE IMPORT OF THE BANNED ITEMS THAT WERE ALREADY ON ORDER AT THE TIME OF THE BAN. THESE ITEMS WILL, HOWEVER, BE TAXED AT THE NEW RATE.

WHITEHOUSE

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